

ARCH COAL INC
Form DEF 14A
March 12, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

SCHEDULE 14A

(Rule 14a-101)

Schedule 14A Information

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

☒ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to §240.14a-12

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies.

(3) Per unit or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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STEVEN F. LEER

Chairman and Chief Executive Officer

March 27, 2009

Dear fellow stockholder:

You are cordially invited to attend our annual meeting of stockholders on Thursday, April 23, 2009. We will hold the meeting at 10:00 a.m., Central Time, in the lower level auditorium at our headquarters located at CityPlace One, One CityPlace Drive, St. Louis, Missouri 63141. You can find maps with directions to our headquarters near the back of the proxy statement that accompanies this letter.

In connection with the annual meeting, we have enclosed a notice of the meeting, a proxy statement and a proxy card. We have also enclosed a copy of our annual report for 2008 which contains detailed information about us and our operating and financial performance.

I hope that you will be able to attend the meeting, but I know that not every stockholder will be able to do so. Whether or not you plan to attend, I encourage you to vote your shares. You may vote by telephone or on the Internet, or complete, sign and return the enclosed proxy card in the postage-prepaid envelope, also enclosed. The prompt execution of your proxy will be greatly appreciated.

Sincerely,

Steven F. Leer

Chairman of the Board and Chief Executive Officer

1 CityPlace Drive, Suite 300 St. Louis, Missouri 63141 t: (314) 994-2700

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**One CityPlace Drive, Suite 300
St. Louis, Missouri 63141**

March 27, 2009

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of stockholders of Arch Coal, Inc. will be held in the lower level auditorium at our headquarters located at CityPlace One, One CityPlace Drive, St. Louis, Missouri 63141 on Thursday, April 23, 2009 at 10:00 a.m., Central Time. At the annual meeting, stockholders will consider the election of four nominees for director, ratification of the appointment of our independent public accounting firm and any other business properly introduced at the meeting.

By order of the Board of Directors

Robert G. Jones
Senior Vice President-Law, General Counsel and Secretary

PROXY STATEMENT

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PROXY AND VOTING INFORMATION

Why am I receiving these proxy materials?

Our board of directors is soliciting proxies for the 2009 annual meeting of stockholders. On or about March 27, 2009, we expect to begin mailing these proxy materials to all stockholders at the close of business on February 23, 2009, the record date. On the record date, there were 142,862,991 shares of our common stock outstanding.

Where and when is the annual meeting?

We will hold the annual meeting on Thursday, April 23, 2009, at 10:00 a.m., Central Time, in the lower level auditorium at our headquarters located at CityPlace One, One CityPlace Drive, St. Louis, Missouri 63141. You can find maps with directions to our headquarters on page 50 of this proxy statement.

What am I being asked to vote on at the meeting?

We are asking our stockholders to elect the four nominees for director named in this proxy statement and to ratify the appointment of our independent registered public accounting firm.

How many votes do I have?

You have one vote for each share of our common stock that you owned at the close of business on the record date. These shares include:

Shares registered directly in your name with our transfer agent, for which you are considered the stockholder of record;

Shares held for you as the beneficial owner through a broker, bank, or other nominee in street name; and

Shares credited to your account in our employee thrift plan.

What is the difference between holding shares as a stockholder of record and as a beneficial owner ?

If your shares are registered directly in your name with our transfer agent, you are considered the stockholder of record with respect to those shares. We have sent these proxy materials directly to you.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of the shares held in street name. Your broker, bank or other nominee who is considered the stockholder of record with respect to those shares has forwarded these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote your shares by using the voting instruction card included in the mailing or by following their instructions for voting by telephone or the Internet.

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How can I vote my shares?

You can vote by proxy or in person.

How do I vote by proxy?

If you are a stockholder of record, you may vote by telephone, Internet, or mail. Our telephone and Internet voting procedures are designed to authenticate stockholders by using individual control numbers that can be found on the proxy card.

Voting by telephone

You can vote by calling the toll-free telephone number on your proxy card. Telephone voting is available 24 hours a day, 7 days a week, until 11:59 p.m., Eastern Time, on the day before the meeting. If you vote by telephone, you do not need to return your proxy card.

Voting by Internet

You can vote via the Internet. The web site for Internet voting is on your proxy card. Internet voting is available 24 hours a day, 7 days a week, until 11:59 p.m., Eastern Time, on the day before the meeting. If you vote via the Internet, you do not need to return your proxy card.

Voting by mail

If you choose to vote by mail, simply mark your proxy card, date and sign it, and return it in the postage-paid envelope provided.

If you submit your proxy using any of these three methods, Steven F. Leer or Robert G. Jones will vote your shares in the manner you indicate. You may specify whether your shares should be voted for all, some, or none of the nominees for director and for or against any other proposals properly introduced at the annual meeting. If you vote by telephone or Internet and choose to vote with the recommendation of our board of directors, or if you vote by mail, sign your proxy card, and do not indicate specific choices, your shares will be voted **FOR** the election of all four nominees for director and **FOR** ratification of the appointment of our independent public accounting firm.

If any other matter is presented, your proxy will authorize Steven F. Leer or Robert G. Jones to vote in accordance with their best judgment. At the time this proxy statement was printed, we knew of no matters to be considered at the annual meeting other than those referenced in this proxy statement.

If you wish to give a proxy to someone other than Steven F. Leer or Robert G. Jones, you may strike out their names on the proxy card and write in the name of any other person, sign the proxy, and deliver it to the person whose name has been substituted.

How can I revoke my proxy?

You may revoke a proxy in any one of the following three ways:

Submit a valid, later-dated proxy;

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Notify Robert G. Jones, our secretary, in writing before the annual meeting that you have revoked your proxy; or

Vote in person at the annual meeting.

How do I vote in person?

If you are a stockholder of record, you may attend the annual meeting and cast your vote in person.

If I hold shares in street name, how can I vote my shares?

You can submit voting instructions to your broker, bank or other nominee. In most instances, you will be able to do this by telephone, over the Internet, or by mail. Please refer to the voting instruction card included with these materials by your broker, bank or other nominee.

How do I vote my shares in the dividend reinvestment plan or the direct stock purchase plan?

If you participate in our dividend reinvestment plan or our direct stock purchase plan, your proxy will also serve as an instruction to vote the whole shares you hold under those plans in the manner indicated on the proxy. If your proxy is not received, the shares you hold in those plans will not be voted.

How do I vote my shares held in the employee thrift plan?

If you are both a registered stockholder and a participant in our employee thrift plan, you will receive a single proxy card that covers shares of our common stock credited to your plan account as well as shares of record registered in exactly the same name. Accordingly, your proxy card also serves as a voting instruction for the trustee of the plan. If your plan account is not carried in exactly the same name as your shares of record, you will receive separate proxy cards for individual and plan holdings. If you own shares through this plan and you do not return your proxy by April 13, 2009, the trustee will vote your shares in the same proportion as the shares that are voted by the other participants in the plan. The trustee will also vote unallocated shares of our common stock held in the plan in direct proportion to the voting of allocated shares in the plan for which voting instructions have been received unless doing so would be inconsistent with the trustee's duties.

Is my vote confidential?

Yes. Voting tabulations are confidential except in extremely limited circumstances. Such limited circumstances include contested solicitation of proxies, when disclosure is required by law, to defend a claim against us or to assert a claim by us and when a stockholder's written comments appear on a proxy or other voting material.

What quorum is required for the annual meeting?

In order to have a valid stockholder vote, a quorum must exist at the annual meeting. For us, a quorum exists when stockholders holding a majority of the outstanding shares of our common stock are present or represented at a meeting. For these purposes, shares that are present or represented by proxy at

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the annual meeting will be counted toward a quorum, regardless of whether the holder of the shares or proxy fails to vote on a particular matter or whether a broker with discretionary voting authority fails to exercise such authority with respect to any particular matter.

What vote is required?

Election of four directors (Proxy Item No. 1)

The nominees who receive the most votes for the available positions will be elected. If you indicate withhold authority to vote for a particular nominee on your proxy card, your vote will not count either for or against the nominee. Abstentions are not counted in the election of directors and do not affect the outcome.

Ratification of the appointment of independent public accounting firm (Proxy Item No. 2)

The affirmative vote of a majority of the shares present and entitled to vote at the meeting is required for ratification of the appointment of Ernst & Young LLP as our independent public accounting firm.

If a broker indicates on its proxy that it does not have authority to vote certain shares held in street name, the shares not voted are referred to as broker non-votes. Broker non-votes occur when brokers do not have discretionary voting authority to vote certain shares held in street name on particular proposals under the rules of the New York Stock Exchange, and the beneficial owner of those shares has not instructed the broker how to vote on those proposals. If you are a beneficial owner, your broker, bank or other nominee is permitted to vote your shares on the election of directors and the ratification of the appointment of our independent public accounting firm, even if the holder does not receive voting instructions from you. Shares represented by proxies that are marked vote withheld with respect to the election of any nominee will not be considered in determining whether such nominee has received the affirmative vote of a plurality of the shares. Shares represented by proxies that are marked abstain will have the effect of a negative vote.

Where can I find the voting results?

We intend to announce preliminary voting results at the annual meeting. We will publish the final results in our Quarterly Report on Form 10-Q for the first quarter of 2009, which we expect to file on or before May 11, 2009. You can obtain a copy of the Form 10-Q by logging on to our website at archcoal.com, by calling the Securities and Exchange Commission at 800-SEC-0330 for the location of the nearest public reference room, or through the EDGAR system at sec.gov. Information on our website does not constitute part of this proxy statement.

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CORPORATE GOVERNANCE PRACTICES

Overview

We are dedicated to being a market-driven global leader in the coal industry and to creating superior long-term stockholder value. It is our policy to conduct our business with integrity and an unrelenting passion for providing the best value to our customers. All of our corporate governance materials, including the corporate governance guidelines, our code of conduct and board committee charters, are published under **Corporate Governance** in the Investors section of our website at archcoal.com. Information on our website does not constitute part of this proxy statement. These materials are also available in print to any stockholder without charge upon request made by telephone at (314) 994-2700 or by mail at Arch Coal, Inc., One CityPlace Drive, Suite 300, St. Louis, Missouri 63141, Attention: Vice President-Government, Investor and Public Affairs. The board of directors regularly reviews these materials, Delaware law, the rules and listing standards of the New York Stock Exchange and SEC regulations, as well as best practices suggested by recognized governance authorities, and modifies the materials as warranted.

Director Independence

It is the board of directors' objective to have an overwhelming majority of directors who are independent. We have adopted in our corporate governance guidelines the criteria established by the New York Stock Exchange for determining whether a director is independent. The board of directors has determined, in its judgment, that ten of the twelve members of the board of directors meet the New York Stock Exchange standards for independence. Other than Steven F. Leer and John W. Eaves, who are executive officers, each member of our board of directors satisfies the independence standards in the corporate governance guidelines. The independent members of the board of directors meet regularly without any members of management present. These sessions are normally held following or in conjunction with regular board meetings. Mr. James R. Boyd, chairman of the Nominating and Corporate Governance Committee and lead director, serves as the presiding director during executive sessions.

All members of our Audit, Nominating and Corporate Governance and Personnel and Compensation committees must be independent directors as defined by our corporate governance guidelines. Members of the Audit Committee must also satisfy a separate Securities and Exchange Commission independence requirement, which provides that they may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from us or any of our subsidiaries other than their directors' compensation.

Code of Conduct

All of our employees, including our chief executive officer, our chief financial officer and each of the other executives named in this proxy statement, and directors must act ethically at all times and in accordance with the policies comprising our code of conduct, which is published under **Corporate Governance** in the Investors section of our website at archcoal.com and available in print to any stockholder upon request. We intend to post amendments to or waivers from (to the extent applicable to one of our directors or executive officers) the code on our website.

Table of Contents**Conflicts of Interest**

Our code of conduct reflects our policy that all of our employees, including the executives named in this proxy statement, and directors must avoid any activity that creates, or may create, a conflict of interest, that might interfere with the proper performance of their duties or that might be hostile, adverse or competitive with our business. In addition, each of our directors and executive officers is encouraged to notify our board of directors when confronted with any situation that may be perceived as a conflict of interest, even if the person does not believe that the situation would violate our code of conduct or corporate governance guidelines. Our board of directors will then determine, after consultation with counsel, whether a conflict of interest exists. Directors who have a material personal interest in a particular issue may not vote on any matters with respect to that issue.

Structure of the Board of Directors

Our certificate of incorporation and bylaws provide for a board of directors that is divided into three classes as equal in size as possible. The classes have three-year terms, and the term of one class expires each year in rotation at that year's annual meeting. The size of the board of directors can be changed by a two-thirds vote of its members and is currently set at 12 members. Vacancies on the board of directors may be filled by a majority of the remaining directors. A director elected to fill a vacancy, or a new directorship created by an increase in the size of the board of directors, serves for the remainder of the full term of the class of directors in which the vacancy or newly created directorship occurred. As a matter of policy, the board of directors will submit the nomination of a director elected to fill a vacancy to the vote of our stockholders at the next annual meeting.

Director Biographies

The following is a list of our directors, their ages as of February 23, 2009, their occupation during the last five years and certain other biographical information:

Name	Age	Director Since	Term Ends	Occupation and Other Information
James R. Boyd	62	1990	2011	Mr. Boyd served as chairman of the board of directors from 1998 to April 2006, when he was appointed our lead director. Mr. Boyd served as Senior Vice President and Group Operating Officer of Ashland Inc. from 1989 until his retirement in 2002. Mr. Boyd also serves on the board of directors of Halliburton Inc.
Frank M. Burke	69	2000	2009	Mr. Burke has served as Chairman, Chief Executive Officer and Managing General Partner of Burke, Mayborn Company, Ltd., a private investment and consulting company, since 1984. Mr. Burke also serves on the board of directors of Corrigan Investments, Inc. and is a member of the National Petroleum Council.

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Name	Age	Director Since	Term Ends	Occupation and Other Information
John W. Eaves	51	2006	2011	Mr. Eaves has been President and Chief Operating Officer since April 2006. From 2002 to April 2006, Mr. Eaves served as our Executive Vice President and Chief Operating Officer. Mr. Eaves also serves on the board of directors of ADA-ES, Inc.
Patricia F. Godley	60	2004	2009	Since 1998, Ms. Godley has been a partner with the law firm of Van Ness Feldman, practicing in the areas of economic and environmental regulation of electric utilities and natural gas companies. Ms. Godley is also a director of the United States Energy Association.
Douglas H. Hunt	56	1995	2011	Since 1995, Mr. Hunt has served as Director of Acquisitions of Petro-Hunt, LLC, a private oil and gas exploration and production company.
Brian J. Jennings	48	2006	2010	Since February 2009, Mr. Jennings has been President and Chief Executive Officer of Rise Energy Partners, L.P. From April 2007 to June 2008, Mr. Jennings served as Chief Financial Officer of Energy Transfer Partners GP, L.P., the general partner of Energy Transfer Partners, L.P., a publicly-traded partnership owning and operating a portfolio of midstream energy assets. From March 2004 to December 2006, Mr. Jennings served as Senior Vice President-Corporate Finance and Development and Chief Financial Officer of Devon Energy Corporation. Mr. Jennings served as Senior Vice President-Corporate Finance and Development of Devon Energy Corporation from 2001 to March 2004.
Steven F. Leer	56	1992	2010	Mr. Leer has been our Chief Executive Officer since 1992. From 1992 to April 2006, Mr. Leer also served as our President. In April 2006, Mr. Leer became Chairman of the board of directors. Mr. Leer also serves on the boards of the Norfolk Southern Corporation, USG Corp., the Western Business Roundtable, the BRT and the University of the Pacific and is chairman of the Coal Industry Advisory Board. Mr. Leer is past chairman and continues to serve on the boards of the Center for Energy and Economic Development, the National Coal Council and the National Mining Association.
Thomas A. Lockhart	73	2003	2009	

Mr. Lockhart has been a member of the Wyoming State House of Representatives since 2000. Mr. Lockhart also serves on the board of directors of Blue Cross Blue Shield of Wyoming.

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Name	Age	Director Since	Term Ends	Occupation and Other Information
A. Michael Perry	72	1998	2011	Mr. Perry served as Chairman of Bank One, West Virginia, N.A. from 1993 and as its Chief Executive Officer from 1983 until his retirement in 2001. Mr. Perry also serves on the board of directors of Champion Industries, Inc. and Portec Rail Products, Inc.
Robert G. Potter	69	2001	2010	Mr. Potter was Chairman and Chief Executive Officer of Solutia, Inc. from 1997 until his retirement in 1999. Mr. Potter also serves on the board of directors of Stepan Company. He is also an investor in and a board member of several private companies.
Theodore D. Sands	63	1999	2010	Since 1999, Mr. Sands has served as President of HAAS Capital, LLC, a private consulting and investment company. Mr. Sands also serves on the board of directors of Terra Nitrogen Corporation.
Wesley M. Taylor	66	2005	2009	Mr. Taylor was President of TXU Generation, a company engaged in electricity infrastructure ownership and management. Mr. Taylor served at TXU for 38 years prior to his retirement in 2004. Mr. Taylor also serves on the board of directors of FirstEnergy Corporation.

Table of Contents**Board Meetings and Committees**

The board of directors has the following five committees: Nominating and Corporate Governance, Finance, Personnel and Compensation, Audit and Energy and Environmental Policy. The table below contains information concerning the membership of each of the committees and the number of times the board and each committee met during 2008. Each director attended at least 75% of the total number of meetings of the board and of the committees on which he or she serves. In addition, all directors are expected to attend the annual meeting of stockholders, and all of them attended last year's annual meeting.

	Board	Nominating and Corporate Governance	Finance	Personnel and Compensation	Audit	Energy and Environmental Policy
Mr. Boyd		5				
Mr. Burke					5	
Mr. Eaves						
Ms. Godley						5
Mr. Hunt						
Mr. Jennings						
Mr. Leer	5					
Mr. Lockhart						
Mr. Perry						
Mr. Potter				5		
Mr. Sands			5			
Mr. Taylor						5
Number of 2008 meetings	7	5	6	4	9	5
5 Chair	Member					

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is responsible for the following items:

identifying individuals qualified to become directors and recommending candidates for membership on the board of directors and its committees, as described under the heading "Nomination Process for Election of Directors" on page 11;

developing and recommending the corporate governance guidelines to the board of directors;

reviewing and recommending compensation of non-employee directors; and

reviewing the effectiveness of board governance, including overseeing an annual assessment of the performance of the board of directors and each of its committees.

The board of directors has determined, in its judgment, that the Nominating and Corporate Governance Committee is composed entirely of independent directors as defined in the New York Stock Exchange listing standards and operates under a written charter adopted by the board of directors, a copy of which is published under "Corporate Governance" in the Investors section of our website at archcoal.com and is available in print to any stockholder upon request.

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Finance Committee

The Finance Committee reviews and approves fiscal policies relating to our financial structure, including our debt, cash and risk management policies. The Finance Committee also reviews and recommends to the board appropriate action with respect to significant financial matters, including dividends on our capital stock, major capital expenditures and acquisitions, and funding policies of our employee benefit plans.

Personnel and Compensation Committee

The Personnel and Compensation Committee is responsible for the following items:

- reviewing and recommending to the board of directors our compensation programs;
- reviewing and recommending to the board of directors the participation of executives and other key management employees in the various compensation plans; and
- monitoring our succession planning and management development practices.

The board has determined, in its judgment, that the Personnel and Compensation Committee is composed entirely of independent directors as defined in the New York Stock Exchange listing standards and operates under a written charter adopted by the entire board, a copy of which is published under **Corporate Governance** in the Investors section of our website at archcoal.com and is available in print to any stockholder upon request. The report of the Personnel and Compensation Committee can be found on page 44 of this proxy statement.

Audit Committee

The Audit Committee is responsible for the following items:

- monitoring the integrity of our consolidated financial statements, internal accounting, financial controls, disclosure controls and financial reporting processes;
- confirming the qualifications and independence of our independent registered public accounting firm;
- evaluating the performance of our internal audit function and our independent registered public accounting firm; and
- reviewing our compliance with legal and regulatory requirements.

The Audit Committee is directly responsible for the appointment, compensation and oversight of the work of our independent registered public accounting firm. The board of directors has determined, in its judgment, that the Audit Committee is composed entirely of independent directors as defined in the New York Stock Exchange listing standards and Rule 10A-3 of the Securities Exchange Act of 1934 and operates under a written charter adopted by the board of directors, a copy of which is published under **Corporate Governance** in the Investors section of our website at archcoal.com and is available in print to any stockholder upon request.

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The board of directors has also determined, in its judgment, that Mr. Burke and Mr. Jennings are audit committee financial experts and that each member of the Audit Committee is financially literate. Our corporate governance guidelines do not currently restrict the number of audit committees of public companies on which members of our Audit Committee may serve. The board of directors has determined that none of the members of the Audit Committee currently serves on the audit committees of more than three public companies. The report of the Audit Committee can be found on page 45 of this proxy statement.

Energy and Environmental Policy Committee

The Energy and Environmental Policy Committee reviews, assesses and provides advice to the board of directors on current and emerging energy and environmental policy trends and developments that affect or could affect us. In addition, the Energy and Environmental Policy Committee makes recommendations concerning whether and to what extent we should become involved in current and emerging energy and environmental policy issues.

Compensation Committee Interlocks and Insider Participation

The identities of the directors who served on the Personnel and Compensation Committee during 2008 are set forth under the report of the Personnel and Compensation Committee on page 44 of this proxy statement. None of the directors who served on the Personnel and Compensation Committee during 2008 has been an officer or employee of ours. None of our executives has served on the board of directors or compensation committee of any other entity that has or has had one or more executives serving as a member of our board of directors or compensation committee.

Nomination Process for Election of Directors

The Nominating and Corporate Governance Committee has responsibility for assessing the need for new directors to address specific requirements or to fill a vacancy. The committee initiates a search for a new candidate seeking input from our chairman and from other directors. The committee may retain an executive search firm to identify potential candidates. All candidates must meet the requirements specified in our corporate governance guidelines. Candidates who meet those requirements and otherwise qualify for membership on our board of directors are identified, and the committee initiates contact with preferred candidates. The committee regularly reports to the board of directors on the progress of the committee's efforts. The committee meets to consider and approve final candidates who are then presented to the board of directors for consideration and approval. Our chairman or the chairman of the Nominating and Corporate Governance Committee may extend an invitation to join the board of directors.

Stockholder recommendations should be submitted in writing to Robert G. Jones, our secretary, and should include information regarding nominees required under our bylaws. Individuals recommended by stockholders will receive the same consideration received by individuals identified to the Nominating and Corporate Governance Committee through other means.

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Communicating with the Board of Directors

Our board of directors has established procedures intended to facilitate stockholder communication directly with the board of directors, the non-employee directors or the Audit Committee. Such communications may be confidential or anonymous, and may be reported by phone to our confidential hotline at 866-519-1881 or by writing to the individual directors or group in care of Arch Coal, Inc., One CityPlace Drive, Suite 300, St. Louis, Missouri 63141, Attention: Senior Vice President-Law, General Counsel and Secretary. All such communications are promptly communicated to the chairman of the Audit Committee or our Director of Internal Audit, as appropriate.

ELECTION OF DIRECTORS (PROXY ITEM NO. 1)

The terms of four directors (Messrs. Burke, Lockhart and Taylor and Ms. Godley) will expire at the annual meeting. Our board of directors has nominated each of those individuals for re-election for a three-year term that will expire in 2012. The board of directors is not aware that any nominee will be unwilling or unable to serve as a director. All nominees have consented to be named in the proxy statement and to serve if elected. If, however, a nominee is unavailable for election, your proxy authorizes us to vote for a replacement nominee if the board of directors names one. As an alternative, the board of directors may reduce the number of directors to be elected at the meeting.

The board of directors recommends a vote **FOR** these nominees.

Table of Contents**RATIFICATION OF THE APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTING FIRM (PROXY ITEM NO. 2)**

Ernst & Young LLP was our independent public accounting firm for 2008. The Audit Committee has appointed Ernst & Young LLP as our independent public accounting firm for 2009. The Audit Committee and the board of directors are requesting that stockholders ratify this appointment as a means of soliciting stockholders' opinions and as a matter of good corporate governance. If the stockholders do not ratify the selection of Ernst & Young LLP, the Audit Committee will consider any information submitted by stockholders in connection with the selection of the independent public accounting firm for the next fiscal year. Even if the selection is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent public accounting firm at any time during the year if the Audit Committee believes such a change would be in our best interests and the best interests of our stockholders.

Representatives of Ernst & Young LLP will attend the annual meeting and will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions.

During 2008 and 2007, Ernst & Young LLP charged fees for services rendered to us as follows:

Service	Fee	
	2008	2007
Audit ⁽¹⁾	\$ 1,409,809	\$ 1,464,800
Audit-related ⁽²⁾	22,238	17,000
Tax		
All Other		

(1) Audit services performed by Ernst & Young LLP in 2008 and 2007 included the annual financial statement audit (including required quarterly reviews) and other procedures performed by Ernst & Young LLP to form an opinion on our consolidated financial statements.

(2) Audit-related services performed by Ernst & Young LLP include, for 2008 and 2007, a review of certain performance conditions associated with our performance-contingent phantom stock award payouts and a review of certain registration statements we filed with the Securities and Exchange Commission. In addition, audit-related services performed by Ernst & Young LLP in 2008 included a review of certain excise tax refunds.

The Audit Committee has adopted an audit and non-audit services pre-approval policy that requires the committee, or the chairman of the committee, to pre-approve services to be provided by our independent public accounting firm. The Audit Committee will consider whether the services to be provided by the independent public accounting firm are prohibited by the Securities and Exchange Commission's rules on auditor independence and whether the independent public accounting firm is best positioned to provide the most effective and efficient service. The Audit Committee is mindful of the relationship between fees for audit and non-audit services in deciding whether to pre-approve such services. The Audit Committee has delegated to the chairman of the committee pre-approval authority between committee meetings, and the chairman must report any pre-approval decisions to the committee at the next regularly scheduled committee meeting. All non-audit services performed by Ernst & Young LLP in 2008 and 2007 were pre-approved in accordance with the procedures established by the Audit Committee.

The board of directors recommends a vote **FOR** ratification of the appointment of Ernst & Young LLP as our independent public accounting firm.

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EXECUTIVE AND DIRECTOR COMPENSATION

Compensation Discussion and Analysis

Overview

We believe that our success in creating long-term value for our stockholders depends on our ability to attract, motivate and retain highly talented executives. We encourage sustained long-term profitability and increased stockholder value by linking executive compensation to our achievement of financial and operating performance. We use equity-based awards and other mechanisms to align the long-term interests of our executives with those of our stockholders. We have designed elements of our executive compensation program to increase the likelihood that we will retain key employees.

We have determined the type and amount of compensation for each executive after considering a variety of factors, including the executive's position and level of responsibility within our organization, comparative market data and other external market-based factors. Our Personnel and Compensation Committee uses this information when establishing compensation in order to achieve a comprehensive package that emphasizes pay-for-performance and is competitive in the marketplace.

Our Compensation Philosophy

Our Personnel and Compensation Committee believes that an effective executive compensation program should encompass the following fundamental objectives:

Compensation should be competitive.

Compensation should vary with our performance.

Compensation should align the long-term interests of our executives with those of our stockholders.

Compensation should provide a retention incentive.

We have designed our executive compensation program around these beliefs.

Our Compensation Process

The committee uses current compensation levels, performance, long-term career goals, future leadership potential and succession planning, among other factors, in determining appropriate compensation levels for our executives. The committee does not use a formula to weight these factors. However, the committee believes these factors provide context within which to assess the significance of comparative market data and to differentiate the level of compensation among our executives.

Annually, the committee reviews the design of our executive compensation program. In doing so, the committee assesses whether compensation programs used in prior years have successfully achieved our compensation objectives. The committee also considers the extent to which our compensation program is designed to achieve our long-term financial and operating goals. The committee has retained Watson

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Wyatt to help analyze certain comparative market data. Certain members of management participate in this process by assembling and summarizing data used by the committee.

After the end of the performance period to which a particular incentive award relates, the committee reviews our performance relative to the applicable performance targets and recommends payouts based on that performance. The committee retains discretion to recommend payouts that are above or below actual performance levels for the applicable performance period. For purposes of determining the amount of a payout to recommend, the committee may also consider infrequent or non-recurring items that are not reflective of ongoing operations or the effects of major corporate transactions or other items that the committee determines, in its judgment, significantly distort the comparability of our actual performance against the performance targets.

Role of Management

Our chief executive officer and vice president of human resources provide the committee with compensation recommendations for our executives, other than the chief executive officer, including base salary, annual cash incentive opportunity and long-term incentive opportunities. Management provides a current market value for each proposed element and for the total targeted value, as well as the median market value for the executive's peers. Management obtains the comparative market information primarily from materials provided by our compensation consultant. Neither our chief executive officer nor the vice president of human resources recommends his or her own base salary or targeted payouts under our annual or long-term incentive awards.

Annually, the committee reviews the performance of our chief executive officer and makes recommendations to the board of directors regarding his compensation. In doing so, the committee uses information provided by our compensation consultant and certain historical financial and operating performance data provided by management. Historically, the committee has not considered accrued pension benefits, deferred compensation, thrift plan amounts or existing stock ownership in making its recommendations. The committee believes that the compensation opportunities granted to our chief executive officer, while higher in the aggregate than compensation granted to our other executives, is appropriate taking into consideration our chief executive officer's overall leadership responsibilities.

Role of Compensation Consultant

The committee has retained Watson Wyatt to provide information concerning compensation practices, mix of compensation elements and comparative market data. Our compensation consultant provides information used by the committee to assess and determine appropriate levels of executive compensation relative to the marketplace. In doing so, the compensation consultant provides the committee with comparative data for a peer group and for the S&P Midcap 400 Index by executive position, along with other relevant industry data.

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The peer companies included in the information provided by our compensation consultant included those public companies with which we most directly compete on the basis of customers, investors and executive talent. For 2008, those companies included the following:

Alpha Natural Resources, Inc.	Cliffs Natural Resources, Inc.
CONSOL Energy, Inc.	Foundation Coal Holdings, Inc.
International Coal Group, Inc.	Martin Marietta Materials
Massey Energy Company	Minerals Technologies, Inc.
Peabody Energy Corporation	Vulcan Materials Co.

The committee regularly assesses the appropriateness of the peer group used to benchmark our compensation programs. The peer group used by the committee for 2008 was consistent with the peer group used by the committee for 2007. For 2009, the committee added Patriot Coal Corp. to the peer group.

Elements of Our Compensation Program

We use the following compensation elements to achieve the compensation objectives established by the committee:

base salary;

short- and long-term incentive opportunities; and

certain limited perquisites and other benefits.

The committee believes that a higher percentage of total compensation for those executives with a greater ability to influence the achievement of our financial and operating objectives should be variable and, therefore, subject to greater risk. In general, as the position and amount of responsibility for an executive increase, a greater percentage of that executive's total compensation will be variable. As a result, executives with the highest level and amount of responsibility generally have the lowest percentage of their total compensation fixed as base salary and the highest percentage of their total compensation dependent upon short- or long-term incentive awards.

The following table shows the allocation of total targeted compensation for each of the executives named in this proxy statement for each of the last three years:

	% of Target 2006 Compensation⁽¹⁾			% of Target 2007 Compensation⁽¹⁾			% of Target 2008 Compensation⁽¹⁾		
	Fixed	Performance-Based⁽²⁾	Long-Term	Fixed	Performance-Based⁽²⁾	Long-Term	Fixed	Performance-Based⁽²⁾	Long-Term
	Base Salary	Annual		Base Salary	Annual		Base Salary	Annual	
Steven F. Leer	32%	24%	44%	18%	18%	64%	18%	18%	64%
John T. Drexler ⁽³⁾	54%	24%	22%	50%	25%	25%	25%	13%	62%
C. Henry Besten, Jr.	32%	16%	52%	25%	13%	62%	25%	13%	62%
John W. Eaves	34%	20%	46%	19%	15%	66%	19%	15%	66%
David N. Warnecke	32%	16%	52%	25%	13%	63%	23%	14%	63%
Robert J. Messey	35%	18%	47%	22%	11%	67%	22%	11%	67%

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- (1) For purposes of determining total compensation, we have included base salary, targeted annual cash incentives and the value of targeted long-term incentive awards. The information used to prepare the table shown above differs from the information contained in the Summary Compensation Table on page 26 primarily because we have used the grant date fair market value for equity awards rather than the current year's amortized expense for such awards recognized in our consolidated financial statements. In addition, we have not considered the increased value of other compensation elements such as pension plans, nor have we assigned cash values to perquisites.
- (2) In determining the percentages shown above, the annual cash incentives and the long-term incentive awards are assumed to be paid at target levels.
- (3) Mr. Drexler was promoted to Senior Vice President and Chief Financial Officer in April 2008 and, at that time, the percentage of his total compensation dependent upon short- and long-term incentive awards was changed to reflect the level and amount of responsibility associated with his position. The information contained in the table above for 2008 reflects the percentages of total compensation at the time of Mr. Drexler's promotion.

Base Salary We provide each executive with an annual base salary. Base salaries for our executives depend on the executives' experience and scope of responsibilities as well as the median market data for comparable job positions. We increase base salary primarily in response to notable achievements or for changes in scope of responsibilities. In addition, we may increase base salary to remain competitive in the marketplace.

At the beginning of 2008, upon the recommendation of the committee, the board of directors approved increases in the annual base salaries for our executives. In making its recommendations, the committee considered market data provided to the committee by management and by our compensation consultant. In addition, Mr. Drexler received an increase in his annual base salary concurrently with his promotion to Senior Vice President and Chief Financial Officer in April 2008. In making its recommendation, the committee reviewed comparable market data and considered the increased scope of Mr. Drexler's responsibilities.

Annual Cash Incentive Program We provide approximately 275 key employees, including the executives named in this proxy statement, the opportunity to earn additional cash compensation through annual cash incentive awards. The committee intends for our annual cash incentive program to focus our organization on meeting certain financial and operating objectives by rewarding those key employees with the greatest ability to influence our results.

Early each year, the committee considers whether annual cash incentives should be awarded. If so, the committee recommends to the board of directors the group of employees eligible to receive an award for that year. Annual cash incentive awards contain various incentive levels based on the participant's accountability and impact on our performance, with target opportunities established as a percentage of base salary.

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The following table shows the target opportunities available to the executives named in this proxy statement as a percentage of their base salaries and the actual payouts as a percentage of their base salaries each of the last three years:

Name	2006		2007		2008	
	Target as % of Base Salary	Actual Payout as % of Base Salary	Target as % of Base Salary	Actual Payout as % of Base Salary	Target as % of Base Salary	Actual Payout as % of Base Salary
Steven F. Leer	75%	70%	100%	88%	100%	176%
John T. Drexler	45%	41%	50%	35%	50%	81% ⁽¹⁾
C. Henry Besten, Jr.	50%	47%	50%	44%	50%	88%
John W. Eaves	60%	56%	80%	70%	80%	140%
David N. Warnecke	50%	47%	50%	44%	60%	105%
Robert J. Messey	50%	47%	50%	44%	50%	81% ⁽¹⁾

(1) In accordance with the terms of the plan, the payouts for Messrs. Drexler and Messey were prorated to account for Mr. Messey's retirement in April 2008 and Mr. Drexler's concurrent promotion to Senior Vice President and Chief Financial Officer in April 2008.

Payouts under our annual cash incentive program depend upon our earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, safety and environmental performance and, for some employees, our production costs per ton. Some or all of these performance measures may be used for our other key employees, and the performance measures may differ for various groups or classifications of employees. By identifying meaningful performance measures and by assigning certain measures greater weight, we are able to more closely align compensation to the achievement of those business objectives over which particular employees have the greatest impact. The following table shows the relative weighting of the performance measures used for the executives named in this proxy statement for 2008:

Performance Measure	Relative Weighting
EBITDA	50%
Earnings per share	20%
Safety	15%
Environmental	15%

We generally establish the financial performance levels based on budgeted earnings for the upcoming year, and the target levels are generally consistent with the range of earnings that we provide to investors. We generally establish safety and environmental performance targets based on our prior performance history with the objective of promoting meaningful improvements in those areas. The committee considers the performance targets approved by the board of directors to be challenging given conditions prevailing within the coal industry at the time and, with respect to safety and environmental performance targets, given the strength of our performance in those areas in recent periods. Over the past five years, we have paid amounts to the executives named in this proxy statement under annual cash incentive

awards above the target levels in two years.

In order to inspire performance above the targets we set and to acknowledge certain levels of performance below those targets, annual cash incentive awards contain minimum, target and maximum

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levels for each performance measure. Payouts under the awards depend upon the achievement of our objectives. The table below shows the threshold and maximum performance levels for the executives named in this proxy statement for 2008. We may prorate payouts under the annual cash incentive awards for performance levels that fall within these ranges.

Performance Measure	Threshold	Maximum
EBITDA	25%	200%
Earnings per share	25%	200%
Safety	25%	200%
Environmental	25%	200%

In early 2009, upon the recommendation of the committee, the board of directors approved payouts under the 2008 annual cash incentive awards above targeted levels based on our performance relative to the targets approved by the board of directors. In addition, the board of directors, upon the recommendation of the committee, established an annual cash incentive program for 2009, identifying those individuals eligible to participate, the target opportunity for each participant and the performance measures that will be used. The overall design of the 2009 annual cash incentive program is generally consistent with the program approved by the board of directors for 2008.

Long-Term Incentive Program Our long-term incentive program is designed to achieve the compensation objectives established by the committee. The committee intends for our long-term incentive program to promote decision-making that creates long-term value for our stockholders. The committee believes that an effective long-term incentive program should also create strong retention incentives for those key employees who are most likely to influence our long-term performance. In addition, we attempt to align the long-term interests of our executives with those of our stockholders by tying a portion of total compensation to appreciation in the value of our common stock.

The committee has retained flexibility in the types of awards that it may use to implement our long-term incentive program. We have used performance units and performance-contingent phantom stock in order to promote the achievement of our long-term financial and operating performance objectives. In addition, we have used restricted stock, restricted stock units, stock options and other awards tied to the value of our common stock in order to align the long-term interests of our executives and our stockholders and for retention purposes. In determining the aggregate value of long-term awards and the mix of those awards for our executives, the committee considers the executives scope of responsibility, peer group market data, market competition for the particular position, relative internal equity and leadership continuity.

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The following table shows the types of awards that we have generally included as a component of our long-term incentive program for each of the last three years and for 2009 and the percentage of targeted long-term compensation associated with each award:

Compensation Objective	2006	2007	2008	2009
Performance units	44%			50%
Restricted stock units	12%			
Stock options		100%	100%	50%
Performance-contingent phantom stock	44%			

The following is a description of each of these types of awards:

Performance Units Prior to 2007, we used performance units as a component of our long-term incentive program in order to motivate our executives to focus on our financial and operating performance over a multi-year period. Performance units generally provide an opportunity for key employees to earn additional compensation upon the successful achievement of our objectives over a three-year period. The committee has also retained discretion to further align the long-term interests of our stockholders and executives by providing that payouts under performance units may be in the form of cash, stock or a combination of the two.

In the past, payouts under performance units have depended upon the relationship of the compound annual growth rate of our adjusted EBITDA to that of a peer group and the percentage improvement in our safety and environmental performance. By identifying meaningful performance measures and by assigning certain measures greater weight, the committee has sought to align our long-term incentive program with our overall strategic objectives. We believe that our overall operating results are highly dependent upon our safety and environmental performance. The following table shows the relative weighting of the performance measures under the performance units awarded to the executives named in this proxy statement in 2006.

Performance Measure	Relative Weighting
EBITDA growth	60%
Safety	20%
Environmental	20%

For the performance units we granted in 2006, we established the EBITDA performance level based on our long-term financial forecast reviewed by our board of directors and on the recent growth in EBITDA for certain companies within our peer group. For payouts at targeted levels of performance under these awards, we were required to match the weighted compound annual adjusted EBITDA growth for a peer group of companies over the relevant performance period. We established the safety and environmental performance targets based on our prior performance history. For payouts at targeted levels of performance under these awards, we were required to achieve a specified percentage improvement in our three-year average safety and environmental performance over the relevant performance period. The committee considers the performance targets approved by the board of directors to be challenging since higher payouts require us to outperform our peer group over an extended period of time.

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In order to inspire performance above the targets we set and to acknowledge certain levels of performance below those targets, performance unit awards contain minimum, target and maximum levels for each performance measure. Payouts under the awards depend upon the achievement of our objectives. The table below shows the threshold and maximum performance levels under the performance units awarded to the executives named in this proxy statement in 2006. We retained discretion to prorate payouts under the performance units for performance levels that fall within these ranges.

Performance Measure	Threshold	Maximum
EBITDA growth	25%	200%
Safety	100%	200%
Environmental	100%	200%

In early 2009, upon the recommendation of the committee, our board of directors approved payouts under the performance units granted in 2006 at maximum levels based on our achievement of the long-term performance targets approved by the board of directors. In addition, at the beginning of 2009, the board of directors, upon the recommendation of the committee, determined to again include performance units as a component of our long-term incentive program. In making its recommendation, the committee considered the degree to which the stock options granted in 2007 and 2008 satisfied the compensation objectives established by the committee, particularly in light of volatile market conditions during 2008. In addition, the committee reviewed peer group market data provided by our compensation consultant and relevant proxy and other information supplied by management. Based on that information and in an effort to increase the likelihood that our long-term incentive program would accomplish the compensation objectives established by the committee, the committee recommended a combination of performance units and stock options.

Payouts under the performance units granted in 2009 will depend upon our achievement of certain financial and operating performance objectives over a three-year period. The board of directors, upon the recommendation of the committee, determined that our safety and environmental performance remains a critical measure of our long-term success. In redesigning our long-term incentive program for 2009, we evaluated potential performance measures within and outside our industry. Relative total shareholder return has become a preferred long-term performance measure by shareholders because it rewards management for outperforming industry competitors and is directly aligned with shareholder value. As such, to more closely align the interests of our executives and our stockholders, the committee recommended that the board of directors replace EBITDA as the financial measure historically used by our board of directors with a measure of our total stockholder return relative to a peer group consisting of coal industry competitors. For these purposes, we will determine total stockholder return as the compound total stockholder return assuming reinvestment of dividends over the relevant performance period, and our performance will be assessed on a relative basis versus the external benchmark.

Restricted Stock Units and Restricted Stock Prior to 2007, we used restricted stock units as a component of our long-term incentive program designed to align the long-term interests of our stockholders and our executives and for retention purposes. In addition, from time to time, we grant restricted stock to certain key employees as an additional retention incentive. Restricted stock units and

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restricted stock can provide a significant retention incentive since they have real, current value that an executive may forfeit if his or her employment terminates before the awards vest. In addition, restricted stock units and restricted stock satisfy our compensation objectives by promoting long-term decision-making that results in appreciation in the value of our common stock. We have historically used restricted stock units rather than restricted stock because recipients could elect to defer receipt of the common stock and the corresponding tax obligation upon vesting.

When awarded in the past, we have generally conditioned receipt of the common stock underlying these awards on the executive's continued employment. Restricted stock units and restricted stock usually vests ratably over a period of time, generally three or four years. Certain restricted stock awards that we have granted in the past cliff vest at the end of a specified period in order to provide an additional retention incentive. In determining the conditions associated with these types of awards, the committee considers the market competition for the executive's position, the ability of the executive to influence our long-term financial and operating performance and succession planning. The committee has retained discretion whether or not to consider the number of shares of our common stock held by an executive in recommending subsequent awards of restricted stock units or restricted stock.

In early 2008, upon the recommendation of the committee, the board of directors approved one-time awards of restricted stock units to Messrs. Leer and Eaves to provide a significant retention incentive for those key executives and for leadership continuity purposes. One-half of the restricted stock units vests after three years and the remaining one-half of the restricted stock units vests after four years, subject to each executive's continued employment. In determining the number of units to award these executives, the committee considered the executives, experience and scope of responsibilities and certain succession planning goals.

Stock Options In 2007, the board of directors, upon the recommendation of the committee, determined to replace the value of restricted stock units and performance units with stock options. In making its recommendation, the committee determined that long-term stock price appreciation was reflective of our achievement of the long-term performance objectives established by our board of directors. As a result and in an effort to simplify our long-term incentive compensation program, we used stock options as the sole component of our long-term incentive program for 2007 and 2008.

In 2007 and 2008, the committee used stock options in order to achieve each of the compensation objectives established by the committee. Stock options represent the opportunity to buy shares of our common stock at a fixed price at a future date. Under the terms of our stock incentive plan, the exercise price of stock options cannot be less than the fair market value of a share of our common stock on the date of grant. As such, stock options have value for our executives only if the price of our common stock increases after the date of grant.

In the past, our board of directors has generally approved stock options grants in connection with our annual performance assessment and evaluation process. Our policy is to issue stock options on the dates on which the awards are approved and to set the exercise prices of those awards equal to the closing market price of our common stock on that date. In order to provide some retention incentive, our stock options

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generally vest over a stated period measured from the date of grant. Depending upon the strength of the retention incentive intended by the committee, stock options may vest over three or four years. As is typical, the stock options we grant expire after ten years, except in limited circumstances.

In early 2008, upon the recommendation of the committee, the board of directors approved one-time awards of stock options to Messrs. Leer and Eaves to provide a significant retention incentive for those key executives and for leadership continuity purposes. One-half of the stock options vests after three years and the remaining one-half of the stock options vests after four years, subject to each executive's continued employment. In determining the number of stock options to award these executives, the committee considered the executives' experience and scope of responsibilities and certain succession planning goals.

Performance-Contingent Phantom Stock On occasion, we have used performance-contingent phantom stock in order to provide our executives with an opportunity to receive additional compensation for exceptional long-term financial performance. For example, in 2005, we granted performance-contingent phantom stock to our executives. Payouts under those awards depended upon the attainment of a sustained average closing price of our common stock and the achievement of a minimum EBITDA over the trailing 12-month period. Under the awards we granted in 2005, one-half of the performance-contingent phantom stock was conditioned upon an average closing price of our common stock for a period of 20 consecutive trading days equal to \$35.00 or more, and the remaining one-half was conditioned upon an average closing price of our common stock for a period of 20 consecutive trading days equal to \$40.00 or more, in each case subject to the achievement of certain EBITDA requirements. When granted, the committee considered the performance objectives used for these awards to be particularly challenging since higher payouts required long-term stock price appreciation to be attributable, in part, to our achievement of specified levels of EBITDA instead of appreciation in the broader equity market or in the coal industry generally.

In early 2008, our board of directors determined that the performance conditions associated with one-half of the 2005 performance-contingent phantom stock that had not yet vested were satisfied and, as a result, we paid out that portion of the award.

Perquisites and Other Benefits We provide various perquisites and other benefits to our executives for a variety of different reasons, including our intent to attract and retain executives with a comprehensive compensation package. Many of these perquisites and other benefits are not tied to any formal performance objectives. We provide the following perquisites to our executives:

Financial and Tax Planning Services We provide our executives with financial and tax planning services in order to assist them with the complexities of the various compensation arrangements that we maintain, retirement planning and compliance with our stock ownership guidelines.

Club Membership Dues We provide a limited number of executives with memberships for dining and/or country clubs. We intend for these club memberships to provide access to facilities that our executives may use for more private business and business entertainment meetings.

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Other Perquisites We provide certain executives with a number of other perquisites, including limited personal use of our corporate aircraft and executive physical examinations. For more information about these perquisites, including the incremental cost to us for providing those perquisites, you should see the table included as a footnote to the Summary Compensation Table beginning on page 26.

Participation in Benefit Plans and Other Compensation Arrangements Each of our executives is eligible to participate in the same health and welfare plans as our other eligible employees. These plans include medical and dental insurance, life, travel and accidental death and dismemberment insurance, short- and long-term disability coverage and participation in our qualified defined benefit pension plan and qualified defined contribution plan. In addition, each of our executives is eligible to participate in our supplemental retirement plan and non-qualified deferred compensation plan, and each of our executives is subject to an employment agreement.

The following is a summary of certain benefit plans and other compensation arrangements available to our executives but for which our other employees may not be eligible:

Supplemental Retirement Plan Benefits We sponsor a tax-qualified defined benefit plan covering all of our eligible employees, including our executives. The Internal Revenue Code limits the amount of qualified retirement benefits we may provide for certain employees. As a result, we sponsor a supplemental retirement plan that provides eligible employees, including the executives named in this proxy statement, with additional retirement benefits that would otherwise be available under our defined benefit pension plan but for the limitations contained in the Internal Revenue Code. For more information about our defined benefit pension plan and our supplemental retirement plan, including the accumulated benefits attributable to the executives named in this proxy statement, you should see Pension Benefits beginning on page 31.

Non-Qualified Deferred Compensation Plan We sponsor a tax-qualified defined contribution plan covering all of our eligible employees, including the executives named in this proxy statement. Under this plan, eligible employees may contribute up to 50% of their base salaries to the plan, subject to certain limitations contained in the Internal Revenue Code. We contribute one dollar for each dollar contributed by our employees, up to a maximum of 6% of employees base salaries. The Internal Revenue Code limits the amount certain of our employees may contribute to our defined contribution plan in any tax year. As a result, we sponsor a non-qualified deferred compensation plan that allows eligible employees, including the executives named in this proxy statement, to defer receipt of a portion of their base salaries and certain annual and long-term cash incentive awards not subject to these limits. The deferred compensation plan provides higher-paid employees with the full company matching contribution to which they would otherwise be entitled under our defined contribution plan but for the limitations contained in the Internal Revenue Code. For more information about our deferred compensation plan, including information about amounts attributable to the executives named in this proxy statement, you should see Non-Qualified Deferred Compensation beginning on page 33.

Employment Agreements In order to provide certain key employees, including the executives named in this proxy statement, with some financial security in the event their employment with our organization

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is terminated without cause or under certain circumstances following a change of control, we provide those employees with employment agreements. Those agreements provide for cash payments to the key employees in the event their employment with us is terminated under certain circumstances. We believe that the employment agreements we maintain with our key employees provides a meaningful mechanism by which to retain those individuals who are most capable of affecting our future performance. For more information about the employment agreements with the executives named in this proxy statement, you should see Potential Payments Upon Termination of Employment or Change-in-Control beginning on page 34.

Stock Ownership Guidelines Our board of directors has adopted stock ownership guidelines that are intended to promote meaningful stock ownership by our executives. These guidelines specify a number of shares of our common stock, including unvested restricted stock, unvested restricted stock units, shares held through our qualified defined contribution plan and hypothetical shares of our common stock held through our non-qualified deferred compensation plan, that our executives must accumulate by January 1, 2009 or, if elected after January 1, 2004, within five years of becoming an executive. The specific share holding requirements are determined based on a multiple of base salary ranging from one to three times, with the higher multiples applicable to the executives having the highest levels of responsibility. As of December 31, 2008, each of the individuals who has been an executive for at least five years satisfied the stock ownership goal adopted by the board of directors.

Impact of Tax Considerations on Compensation

The Internal Revenue Code limits the amount of the tax deduction we are entitled to take for compensation paid to the executives named in this proxy statement for a particular year unless the compensation meets specific standards. We may deduct compensation in excess of \$1 million if compensation is performance-based and is paid pursuant to a plan that meets certain requirements. In developing, implementing and administering our executive compensation program, the committee considers the impact of these limits and balances the desire to maximize the deductibility of compensation with the goal of attracting, motivating and retaining highly-talented executives.

We generally seek to maximize the tax deductibility of all elements of compensation. However, in light of the need to maintain flexibility in administering our executive compensation program, the committee retains discretion to recommend to the board of directors compensation in excess of the limits, even if a portion of it may not be deductible.

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The following table is a summary of compensation information for our chief executive officer, our chief financial officer, our former chief executive officer and each of the other three most highly compensated executives for each of the last three years:

Name and Job Title	Year	Salary (\$)(⁽¹⁾)	Bonus (\$)	Stock Awards (\$)(⁽²⁾)	Option Awards (\$)(⁽²⁾)	Non-Equity Incentive Plan Compensation (\$)(⁽³⁾)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(⁽⁴⁾)	All Other Compensation (\$)(⁽⁵⁾)	Total (\$)
F. Leer, President and Chief Executive Officer	2008	\$ 850,000		\$ 450,792	\$ 1,819,085	\$ 3,037,000	\$ 122,273	\$ 282,459	\$ 6,560,609
	2007	800,000		224,775	468,983	1,272,800	198,008	102,634	3,064,190
	2006	750,000		2,999,550	152,011	1,433,200	190,858	89,853	5,614,612
Drexler, Vice President	2008	298,632			289,110	407,000	(6)	93,078	1,087,820
	2007	207,270			36,953	104,432	7,251	12,436	367,932
	2006	189,615			10,226	82,410	14,543	11,481	308,275
W. Besten, Jr., Vice President- Technical Development	2008	290,000		83,011	924,398	968,690	75,544	39,892	2,381,535
	2007	280,000		107,320	167,934	389,300	82,933	36,911	1,064,498
	2006	265,000		414,187	39,027	589,850	91,685	33,560	1,432,659
J. Eaves, President, Chief Operating Officer and Director	2008	535,000		732,515	1,171,341	1,674,000	26,170	170,953	4,309,879
	2007	500,000		611,786	303,797	690,400	68,185	125,440	2,299,028
	2006	450,000		2,197,614	49,929	811,200	83,273	78,971	3,670,797
N. Warnecke, Vice President-Marketing	2008	360,000		149,576	560,231	1,123,750	17,665	51,534	2,252,156
	2007	350,000		179,326	219,213	233,300	49,686	35,196	1,067,721
	2006	275,000		428,873	18,263	253,900	56,701	34,391	1,066,228
J. Messey, Senior Vice President	2008	120,000		301,858	1,393,715	108,500	24,574	52,486	2,000,549
	2007	350,000		354,015	157,890	397,300	63,229	51,617	1,373,051
	2006	335,000		1,432,161	47,568	582,800	52,982	51,765	2,509,376

(1) Amounts shown include amounts that the executives named in this proxy statement elected to defer, on a discretionary basis, pursuant to our deferred compensation plan.

(2) Amounts shown represent the compensation cost we recognized in our consolidated financial statements as a result of certain stock or stock option awards made during the year indicated and in prior years. We have determined the compensation cost in accordance with Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*. The compensation cost is subject to certain estimates and assumptions described in Note 16 to our consolidated financial statements for the year ended December 31, 2008 and under the heading *Stock-Based Compensation* in the section entitled *Critical Accounting Policies* included in our Annual Report on Form 10-K for the year ended December 31, 2008. Amounts shown do not necessarily represent the actual value

that may ultimately be received by the executives.

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(3) Amounts shown include the following payouts:

Name	Year	Annual Cash Incentive Awards	Performance Unit Awards
Steven F. Leer	2008	\$ 1,537,000	\$ 1,500,000
	2007	700,800	572,000
	2006	523,200	910,000
John T. Drexler	2008	247,000	160,000
	2007	73,432	31,000
	2006	82,410	
C. Henry Besten, Jr.	2008	262,200	706,490
	2007	122,700	266,600
	2006	123,300	466,550
John W. Eaves	2008	774,000	900,000
	2007	350,400	340,000
	2006	251,200	560,000
David N. Warnecke	2008	390,600	733,150
	2007	153,300	80,000
	2006	127,900	126,000
Robert J. Messey	2008	108,500	
	2007	153,300	244,000
	2006	155,800	427,000

Amounts shown include amounts that the executives named in this proxy statement elected to defer, on a discretionary basis, pursuant to our deferred compensation plan.

(4) Amounts shown represent the changes in the actuarial present value of the accumulated benefits for the executives named in this proxy statement under our defined benefit pension plans, including our supplemental retirement plan, computed in accordance with Statement of Financial Accounting Standards No. 87, *Employer's Accounting for Pensions*. The present value of accumulated benefits is subject to certain actuarial assumptions described in Note 13 to our consolidated financial statements for the year ended December 31, 2008 and under the heading *Employee Benefit Plans* in the section entitled *Critical Accounting Policies* included in our Annual Report on Form 10-K for the year ended December 31, 2008.

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(5) Amounts shown include the following:

Name	Year	Matching	Credits	Dividend	Financial	Club	Tax	Other*	Total
		Contributions	Under						
		to Thrift Plan	Compensation Plan	Equivalents	Planning Services	Membership Dues	Reimbursements		
Steven F. Leer	2008	\$ 12,545	\$ 35,587	\$ 11,781	\$ 13,608	\$ 9,675	\$ 98,943	\$ 100,320	\$ 282,459
	2007	12,250	33,431	2,376	9,016	11,860	15,399	18,302	102,634
	2006	11,513	31,895	9,687	9,150	7,620	13,057	6,931	89,853
John T. Drexler	2008	10,343			6,328	49,560	26,847		93,078
	2007	12,436							12,436
	2006	11,481							11,481
C. Henry Besten, Jr.	2008	12,875	5,559	260	11,200		8,998	1,000	39,892
	2007	10,829	4,818	846	11,281		8,667	470	36,911
	2006	11,058	4,494	2,214	10,320		5,125	349	33,560
John W. Eaves	2008	12,780	17,093	7,808	12,100	8,760	71,540	40,872	170,953
	2007	12,827	14,315	28,421	13,802	15,780	23,942	16,353	125,440
	2006	12,645	13,520	27,901	9,040	7,020	8,082	763	78,971
David N. Warnecke	2008	13,341	8,001	272	9,934		19,986		51,534
	2007	12,878	3,463	432	9,234		5,681	3,509	35,196
	2006	12,997	2,218	528	10,660		6,051	1,936	34,391
Robert J. Messey	2008	7,874	7,476	68	9,488	2,115	25,404	61	52,486
	2007	13,500	6,851	1,052	9,368	8,020	12,826		51,617
	2006	13,200	6,294	6,441	8,600	7,620	8,382	1,228	51,765

* Other items shown in the table above include reimbursement of the costs of annual physical examinations, reimbursement of spousal travel expenses incurred in connection with their attendance at an out-of-town board meeting in 2006 for Messrs. Leer, Eaves and Messey, personal use of corporate aircraft in 2008 and 2007 for Messrs. Leer and Eaves and matching contributions to institutions of higher education in 2006 for Mr. Leer. We determined the aggregate incremental cost of financial planning services, club membership dues, annual physical examinations and spousal travel expenses by reference to our actual out-of-pocket costs for such benefits or a prorated portion of our actual out-of-pocket costs in the event such costs were not separately identifiable. For 2008, the incremental cost of the personal use of corporate aircraft for Mr. Leer was \$94,224 and the incremental cost of the personal use of corporate aircraft for Mr. Eaves was \$40,872. We determined the aggregate incremental cost of the personal use of corporate aircraft by reference to a cost-per-flight-hour charge developed by a nationally-recognized and independent service. This flight-hour charge reflects the direct operating costs of the aircraft, including fuel, additives and lubricants, airport fees and assessments, as well as aircraft landing and parking, customs and permit fees, in-flight supplies and food, and flight planning

and weather services. In addition, the flight-hour charge provides for periodic engine and auxiliary power unit overhauling, outside labor and maintenance parts for the airframe, engine and avionics, crew travel expenses and other miscellaneous costs.

- (6) The value of Mr. Drexler's pension account decreased \$2,264 during 2008.
- (7) Amounts shown in the tables above include information for Mr. Messey, our former Senior Vice President and Chief Financial Officer, through the date of his retirement in April 2008.

Table of Contents**Grants of Plan-Based Awards for the Year Ended December 31, 2008**

The following table shows information relating to the grants of certain equity and non-equity awards made to the executives named in this proxy statement during 2008:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date
		Threshold (\$) ⁽¹⁾	Target (\$) ⁽¹⁾	Maximum (\$) ⁽¹⁾	Units (#) ⁽²⁾	Options (#) ⁽³⁾	(\$/Sh)	Fair Value of Stock and Option Awards ⁽⁴⁾
Steven F. Leer	02/21/08	\$ 212,500	\$ 850,000	\$ 1,700,000				
	02/21/08					191,200	\$ 52.69	\$ 4,234,188
	02/21/08				32,550			1,715,060
John T. Drexler	02/21/08 ⁽⁵⁾	45,048	144,263	270,561				
	02/21/08					4,650	52.69	95,930